

# VESTED INTEREST

NEWSLETTER OF THE WEALTH STRATEGIES GROUP AT CANANDAIGUA NATIONAL BANK & TRUST

## When to Start Social Security Retirement Benefits

The answer is not so simple and a poor choice can cost you tens of thousands of dollars.



**Jim Terwilliger, CFP®**  
VP, Financial Planning Manager

*Why is it that something that is seemingly so simple can be so complicated?*

Case in point – Social Security retirement benefits.

Most retirees consider the decision of when to start receiving benefits to be a no-brainer. But life is not that simple.

This may be the most important decision faced by retirees. Making the wrong choice can mean the loss of tens of thousands of dollars in benefits to a household.

### Some Basics

Full retirement age (FRA) for retirees born between 1943 and 1954 is age 66. Retirement benefits can start as early as age 62 but at a reduced level equal to about 75% of the FRA benefits.

One can also delay beyond FRA all the way to age 70, at which point initial benefits are enhanced to 132% of FRA benefits. There is no advantage to delay further.

For folks still working prior to reaching FRA, there is a \$1 reduction in benefits for every \$2 in earned (W-2 or self-employment) income exceeding \$14,160/year.

Finally, regardless of when benefits start, the “breakeven” age is about the same – age 79-80. That is, if one lives longer than the “breakeven” age, it would have been advantageous to wait until age 70. If one does not, it would have been better to start early.

Of course, none of us has a crystal ball. The best we can do is make a judgment based on health and family history.

Let’s consider some of the major factors influencing the decision of when to start:

### Single, never-married

Generally, if you are working and your annual earned income exceeds \$14,160, it is best to wait until FRA before taking benefits. At that point, the decision to start depends on two primary factors: 1) your need for cash flow, and 2) expected longevity. If you are fortunate enough to not need the money and if you expect to live a long life, consider waiting until age 70 to start. Otherwise, consider starting at FRA.

If you are not working, the same two factors are important, but here the consideration can include starting as early as age 62.

### Married Couple

Here we have to consider survivor’s benefits at some point in the future. A survivor is entitled to the greater of his/her own benefits or the deceased spouse’s benefits. Again, we never seem to have that crystal ball that will tell us future order of deaths. What we do know is that on average, for a couple at age 65, one of the two will live to age 93, well past the “breakeven” age.

Another factor is the spousal benefit, providing benefits to a spouse having a lower or no earnings history once the higher-earning spouse files for Social Security. This benefit is ½ of the higher-earning spouse’s FRA benefits if the lower-earning spouse starts at FRA. In some cases, starting spousal benefits then switching later to one’s own enhanced benefits at age 70 is a winning strategy.

In addition to the need for cash flow and projected longevity, we now have to consider relative ages and the relative earnings histories of the two spouses when developing a “start-Social-Security” strategy for each spouse.

### Single and Divorced or Widowed

Many divorced or widowed retirees don’t realize that they may be eligible for benefits from their former spouse(s). Again, it is possible to establish a sequence of initially starting such benefits and later switching to their own benefits, thereby increasing Social Security income over their lifetimes.

But the rules are very specific and extremely complex. It often occurs that such benefits are wasted or lost by not being aware of the rules.

### How CNB Can Help

Canandaigua National Bank and Trust’s experienced, non-commissioned financial professionals are available to personally discuss your Social Security options. We can help you understand the mechanics of Social Security and how to maximize benefits for your household based on your circumstances. **For more information, visit us online at [CNBank.com/wsg](http://CNBank.com/wsg) or call Jim Terwilliger, Vice President, Financial Planning Manager at 585-419-0670 ext. 50630.**

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# CNB Makes Retirement Planning Easy

Whether you're planning for your own retirement or looking for a retirement plan for your company's employees, CNB can help.

## Individual Retirement Accounts (IRA)

CNB can work with you to develop a professionally managed portfolio based on your retirement time horizon and risk tolerance:

- **Traditional IRA** – contribute tax free until you begin withdrawals
- **Roth IRA** – invest after-tax dollars and take withdrawals tax free
- **Rollover IRA** – consolidate your retirement assets into one personal plan
- **Inherited IRA** – options available for those who inherit an IRA

## Employee-Sponsored Retirement Plans

CNB offers the best, most cost effective, Retirement Plan Solution through a variety of retirement plan choices, including:

- **401(k) Plans** – offers employees a tax-advantage method of saving for retirement.
- **Solo 401(k) Plans** (Traditional or Roth) – plans for self-employed small business owners which allows maximum savings and tax deduction potential.
- **403(b) Plans** - offers employees of not-for-profit organizations a tax-advantage method of saving for retirement.
- **SIMPLE IRAs** (Savings Incentive Match Plan for Employees) – plans for businesses with less than 100 employees
- **Pension, Profit Sharing, and Cash Balance Plans** – review plan choices, and find a solution that's affordable, administratively feasible, and compatible with your business objectives.

## Tax Forms for Your Individual Retirement Accounts (IRA)

When you file your tax return this year, you may need to include information from certain tax forms, and file others.

- **Form 1099-R** – issued by your IRA Custodian/Trustee or plan administrator to report distributions made from your account, recharacterizations of IRA contributions, or Roth conversion amounts.
- **Form 5498** – issued by your IRA Custodian/Trustee to report contributions made to your IRA and recharacterizations between traditional and Roth IRAs.
- **Form 5329** – addresses penalties on transactions that have occurred in your retirement account, such as the 10% early distribution penalty, excess accumulation penalty, and the 6% additional tax assessed on excess contributions.
- **Form 8606** – used to keep track of basis in Traditional and Roth IRAs. Basis consists of nondeductible IRA contributions and eligible rollover amounts of after-tax dollars from certain retirement plans.

It is important to address these forms with your tax preparer to ensure that your tax return is accurate amidst a high volume tax season.

## Our Focus is on Your Financial Well-Being

We encourage you to contact us with your questions on financial matters that relate to you. **To schedule a consultation to review your retirement options, call Kathleen A. Emert at 585-419-0670 ext. 50623.**



**Kathleen A. Emert**  
VP, Retirement Services Manager

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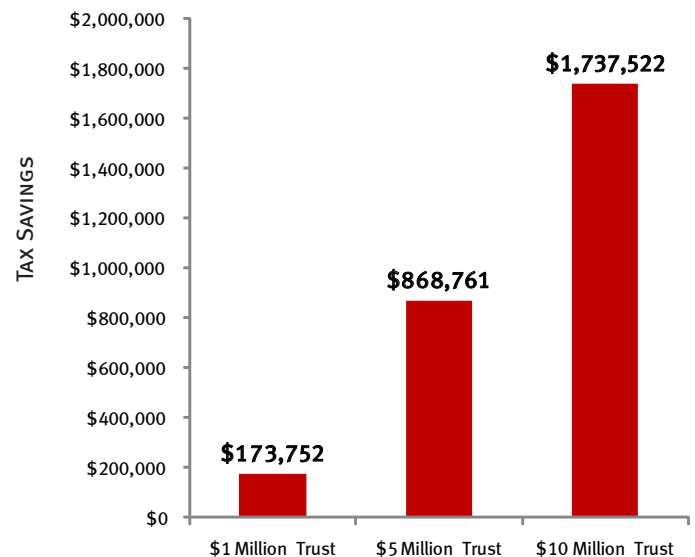
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